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C E N T R A L I N T E L L I G E N C E A G E N C Y

2 October 1967

MEMORANDUM

SUBJECT: Soviet Capabilities and the Requirements of Middle East States for External Assistance

1. We consider that our recent estimates concerning Soviet policy and activities in the Middle East remain valid.* We believe that the USSR will continue to adapt its commitment of resources to the circumstances that present themselves. It will be cautious and pragmatic, avoiding useless expenditure, but ready to exploit any promising opportunities. As and when we perceive the emergence of such opportunities, we will call attention to them in forthcoming NIEs already scheduled.

2. The Soviets could, if they thought it profitable, devote massive resources to the Middle East. In practice, Soviet

* SNIE 11-6-67, "Soviet Strategy and Intentions in the Mediterranean Basin," dated 1 June 1967; SNIE 11-13-67, "Probable Soviet Objectives in Rearming Arab States," dated 20 July 1967; and NIE 11-7-67, "Soviet Foreign Policy," dated 28 September 1967.

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extensions of economic aid to countries of the area have averaged about \$200 million annually since the mid-1950's; drawings have averaged about \$50 million annually. Both extensions and drawings have been well above these averages in the past few years. The Soviets have also been lenient about debt repayment for hard-pressed countries such as the UAR. However, Moscow's reluctance to increase its own levels of aid is suggested by the efforts it has made in the past few months to persuade East European countries to increase their assistance in the region. It has also been clearly unwilling to make up the economic costs to Egypt of the closure of the Suez Canal.

3. The capability of most of the Middle Eastern States for absorbing economic aid is limited. Only Egypt and Jordan have urgent and immediate requirements. But Jordan can probably continue to obtain any necessary aid from Arab and Western sources. Algeria, Iraq, and Syria combined have been using about \$20 to \$25 million in Soviet economic assistance annually, and they are unlikely to want or use much more. Algeria has never had a foreign currency problem, and no difficulties are likely to appear unless France, which provides large-scale assistance, changes policy drastically. Iraq cut foreign expenditures to minimize the

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impact of oil revenue losses in 1967, and the Iraqi economy can remain largely self-supporting as long as oil production is not seriously reduced by disputes between the government and the oil company. Syrian foreign earnings, along with Communist economic assistance at recent levels, is adequate to cover the needs of a stagnant economy.

4. Egypt's need for foreign aid was growing before the June war and has, of course, increased as a result of the war. Since the war, Egypt has received \$100 million in emergency economic aid, largely from other Arab countries, and under the terms of the Khartoum agreement Saudi Arabia, Kuwait, and Libya are to provide Egypt with \$66.5 million per quarter so long as the Suez Canal remains closed. Soviet economic aid to Egypt will be about \$160 million this year (up from \$80 million in 1964 and \$140 million in 1966). Economic aid already received or promised from all sources should cover Egypt's foreign exchange requirements through 1968.

5. Over the longer term, Egypt will need additional foreign economic aid to prevent economic stagnation and decline. If the Suez Canal remains closed, nearly \$200 million a year might be required; if the Canal is reopened, Egyptian foreign exchange

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earnings would recover and no more than \$50-\$75 million of foreign aid would be needed to finance current purchases. Another problem is Egypt's indebtedness to Western creditors. Unless these debts are extended, or unless Egypt defaults, debt service will require an additional \$200 million annually.

6. Military deliveries from the Communists to Arab consumers will almost certainly continue, though their magnitude on a long-term basis remains uncertain. Probably the Soviets have not yet decided upon the future scope of such programs in the new situation created by the Arab defeat. In the recent past we estimate Communist shipments to Algeria, Egypt, Iraq, and Syria to have been worth about \$135 million annually. The annual bills for such aid, after discounts, have averaged about \$95 million. Because of accelerated deliveries during and immediately after the June war, the totals for 1967 probably will be some 20 to 30 percent higher. Moscow is supposed to receive \$52 million in 1967 and \$46 million in 1968 in payment for shipments made to Algeria, Syria, and Iraq in past years. Egypt is not now paying any installments on arms purchases.

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7. In short, the Soviets have moved rapidly to replace a considerable proportion of Arab military equipment and to assist in supplying the most urgently needed economic support. But they have thus far demonstrated considerable caution about building up Arab military capabilities even to prewar levels, or undertaking the long-term economic support of the needier Arab States, notably the UAR.

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